

**REPORT OF THE AUDIT OF THE  
CALDWELL COUNTY  
CLERK**

**For The Year Ended  
December 31, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE CALDWELL COUNTY CLERK**

**For The Year Ended  
December 31, 2010**

The Auditor of Public Accounts has completed the Caldwell County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$11,314 from the prior year, resulting in excess fees of \$66,329 as of December 31, 2010. Revenues increased by \$206,564 from the prior year and expenditures increased by \$195,250.

#### **Report Comments:**

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Require Third Party Purchasers Make Deposits And Payments In Accordance With 103 KAR 5:180

#### **Deposits:**

The County Clerk's deposits were fully insured.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Brock Thomas, Caldwell County Judge/Executive  
The Honorable Toni Watson, Caldwell County Clerk  
Members of the Caldwell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Caldwell County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2011 on our consideration of the Caldwell County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Brock Thomas, Caldwell County Judge/Executive  
The Honorable Toni Watson, Caldwell County Clerk  
Members of the Caldwell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Require Third Party Purchasers Make Deposits And Payments In Accordance With 103 KAR 5:180

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Caldwell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

March 25, 2011



CALDWELL COUNTY  
TONI WATSON, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State Fees For Services	\$	5,571
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Revenue Supplement		61,845
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Fiscal Court		16,128
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	493,487
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Usage Tax		801,179
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Tangible Personal Property Tax		985,331
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Lien Fees		6,626
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City Vehicle Tax		35,168
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Other-

Fish and Game Licenses		9,007
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Marriage Licenses		4,244
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Deed Transfer Tax		27,572
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Delinquent Tax		159,575
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Affordable Housing Trust	15,270	2,537,459
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		12,479
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Real Estate Mortgages		15,830
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Chattel Mortgages and Financing Statements		35,556
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Powers of Attorney		1,056
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Library and Archives		3,034
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All Other Recordings		8,537
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Charges for Other Services-

Candidate Filing Fees		1,690
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Miscellaneous	8,087	86,269
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Other:

Overpayments		13
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Interest Earned		458
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Total Revenues		2,707,743
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The accompanying notes are an integral part of this financial statement.

CALDWELL COUNTY  
 TONI WATSON, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 356,924

Usage Tax 777,122

Tangible Personal Property Tax 377,595

Licenses, Taxes, and Fees-

Fish and Game Licenses 8,746

Delinquent Tax 18,793

Marriage 1,638

Legal Process Tax 11,312

Affordable Housing Trust 15,186 \$ 1,567,316

Payments to Fiscal Court:

Tangible Personal Property Tax 76,008

Delinquent Tax 15,803

Deed Transfer Tax 26,186 117,997

Payments to Other Districts:

Tangible Personal Property Tax 492,316

Delinquent Tax 71,702 564,018

Payments to City of Princeton

30,472

Payments to Sheriff

10,783

Payments to County Attorney

21,028

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 155,628

Employee Benefits-

Employer's Share Social Security 17,295

Employer's Share Retirement 38,921

Employer's Paid Health Insurance 596

The accompanying notes are an integral part of this financial statement.

CALDWELL COUNTY  
 TONI WATSON, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Contracted Services-			
Contracted Services	\$	235	
Advertising		141	
Printing and Binding		2,294	
Materials and Supplies-			
Office Supplies		5,028	
Other Charges-			
Records Restoration		7,307	
Returned Checks		337	
Conventions and Travel		3,075	
Refunds		4,517	
Dues		660	
Postage		4,694	
Telephone Expense		2,168	
Overpayments		692	
Miscellaneous		204	
Capital Outlay-			
Office Equipment		2,680	\$ 246,472
		<hr/>	
Total Expenditures			<hr/> \$ 2,558,086
Net Revenues			149,657
Less: Statutory Maximum			<hr/> 76,104
Excess Fees			73,553
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,624	<hr/> 7,224
Excess Fees Due County for 2010			66,329
Payment to Fiscal Court - March 7, 2010			<hr/> 66,329
Balance Due Fiscal Court at Completion of Audit			<hr/> <hr/> \$ 0

The accompanying notes are an integral part of this financial statement.

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2010  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87 and the member must be a minimum of 57 years of age) or the member is age 65 with minimum 60 months of service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Caldwell County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Caldwell County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Brock Thomas, Caldwell County Judge/Executive  
The Honorable Toni Watson, Caldwell County Clerk  
Members of the Caldwell County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Caldwell County Clerk for the year ended December 31, 2010, and have issued our report thereon dated March 25, 2011. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Caldwell County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations to be a material weakness.

- The County Clerk's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Caldwell County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Require Third Party Purchasers Make Deposits And Payments In Accordance With 103 KAR 5:180

The Caldwell County Clerk's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Caldwell County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

March 25, 2011

## COMMENTS AND RECOMMENDATIONS



CALDWELL COUNTY  
TONI WATSON, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

The Caldwell County Clerk's office has a lack of adequate segregation of duties. Due to a limited number of staff, the County Clerk is required to perform multiple tasks such as the collection of cash from customers, the daily bookkeeping functions, the preparation of checks for disbursements, and monthly bank reconciliations.

Segregation of duties over cash collections, bookkeeping, the preparation of checks, and bank reconciliations or the implementation of compensating controls when the number of staff is limited is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets, we recommend the County Clerk segregate the duties noted above by allowing different deputies to perform these functions. Also, deputies should be cross-trained to allow accounting functions to be rotated between the deputies. For those duties that cannot be segregated due to a limited number of staff, then strong oversight should be provided to the employee or employees responsible for these duties.

*County Clerk's Response: No Response.*

STATE LAWS AND REGULATIONS:

The County Clerk Should Require Third Party Purchasers Make Deposits And Payments In Accordance With 103 KAR 5:180

During testing of delinquent taxes, we noted a large refund check written to Southern Tax for tax bills purchased at the tax sale. Another tax bill purchaser, Tax Ease did not get a refund check. The Clerk informed auditors that Tax Ease did not have to be issued a refund since they sent a blank check. This check was held by the County Clerk until the day of the tax sale, when a representative from Tax Ease filled out the check in the amount due to the Clerk's office for all bills purchased. 103 KAR 5:180 requires third party purchasers deposit with the County Clerk, 100% of tax bills listed on the purchaser's priority tax bill list and deposit 25% of the list of tax bills that the purchaser wishes to purchase at the tax sale. We recommend the County Clerk require third party purchasers make deposits for tax bill purchases in accordance with 103 KAR 5:180.

*County Clerk's Response: Will do in future years.*

